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ABSTRACT

Trends described in the planning and management of block grant programs are based on 13 states' implementation of seven block grants: (1) alcohol, drug abuse, and mental health services; (2) community services; (3) education; (4) low-income home energy assistance; (5) maternal and child health services; (6) preventive health and health services; and (7) social services. For programs other than community services, states used existing organizations and provider networks. The 13 states reported management improvements that focused on reduced time and effort in the preparation of applications and reports, changed or standardized administrative procedures, improved planning and budgeting, and better use of staff. The absence of uniform and consistent data at the state level precluded measurement of state administrative costs. In 1984 Congress added new data collection provisions to five of the seven block grants, and the 1984 Single Audit Act created uniform audit requirements for federal assistance to state and local governments. The appendixes contain a list of the 11 reports issued to date by the General Accounting Office on the implementation of block grants and a letter from the Chairman of the Senate Committee on Governmental Affairs requesting this study. (MLF)

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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

State Rather Than Federal Policies Provided The Framework For Managing Block Grants

Block grants have enabled states to plan and manage programs in accordance with processes used for related services, use established service delivery systems, and carry out other management functions, such as program monitoring and audit using established state procedures. States' prior involvement with many of the categorical programs and related state activities provided an administrative framework for carrying out their new block grant responsibilities. The notable exception was community services where limited prior state involvement required states to develop an administrative structure for the program as well as relationships with service providers.

As block grant implementation proceeded, the 13 states reported management improvements. These focused on reduced time and effort preparing applications and reports, changed or standardized administrative procedures, improved planning and budgeting, and better use of staff. However, GAO was unable to measure whether and to what extent these changes reduced state administrative costs.

To facilitate better program oversight, the Congress acted in 1984 to strengthen the data collection requirements for several block grants. The Congress also created uniform audit requirements for all federal assistance programs to state and local governments, including block grants through the Single Audit Act. Once properly implemented, this legislation should improve states' ability to cover block grants through broader single audits.

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-217560

To the President of the Senate and the
Speaker of the House of Representatives

At the request of the Chairman, Senate Committee on Governmental Affairs, as well as other congressional committees, the General Accounting Office reviewed the implementation of the block grants created by the Omnibus Budget Reconciliation Act of 1981. This report analyzes states' planning and management of block grant programs. It is one in a series we are issuing on block grant implementation.

Copies of this report are being sent to the appropriate House and Senate committees; the Secretaries of Health and Human Services and of Education; the Director, Office of Management and Budget; and the governors and legislatures of the states we visited.

Charles A. Bowsher

Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

STATE RATHER THAN FEDERAL POLICIES PROVIDED THE FRAMEWORK FOR MANAGING BLOCK GRANTS

D I G E S T

The Omnibus Budget Reconciliation Act of 1981 substantially changed various federal domestic assistance programs by consolidating numerous categorical programs into nine block grants and shifting primary management responsibility to states. These block grants provide states greater discretion to plan and manage federal funds in accordance with state priorities and procedures. As a result, it was expected that states could deliver services in a more coordinated and efficient manner than was possible under the categorical approach.

This report describes trends in states' planning and management of block grant programs. It is one of a series GAO is issuing on block grant implementation. Earlier reports focused on how states implemented each of the block grant programs and on issues pertaining to all these programs, including financing trends, civil rights enforcement, and public participation. GAO did its work in 13 states: California, Colorado, Florida, Iowa, Kentucky, Massachusetts, Michigan, Mississippi, New York, Pennsylvania, Texas, Vermont, and Washington.

This report is based on these states' implementation of seven block grants--alcohol, drug abuse, and mental health services; community services; education; low-income home energy assistance; maternal and child health services; preventive health and health services; and social services. It does not discuss two other block grants created in 1981 because only one state accepted the primary care block grant and GAO's earlier study of the small cities community development block grant involved different states.

For the seven block grants, the 13 states received about 46 percent of 1983 national block grant appropriations and account for about 48 percent of the nation's population. While these states represent a diverse cross-section, GAO's work cannot be projected nationally. Also, GAO

did not obtain comments on this report from federal agencies which administer the block grants because information in this report is largely based on data presented in earlier GAO reports on each block grant program. These reports were reviewed in draft by federal agency officials who generally concurred with the findings.

BROADER STATE PLANNING AND BUDGETING PROCESSES INFLUENCE THE USE OF BLOCK GRANT FUNDS

Decisions on how to use block grant funds were linked to broader decisions on related state programs for health and social services and the state portion of the education block grant. States provided significant shares of the total expenditures for these programs, and as a result, state block grant plans were generally either derived from, or consistent with, allocation decisions made during state budgetary or planning processes. Rather than being treated as separate programs, block grant funds were considered as funding sources available to achieve broader state goals. (See pp. 8 and 9.)

In contrast, decisions on the use of low-income energy assistance and community services funds tended to be made through planning processes established for these programs, primarily because the states contributed little, if any, of their own funds in these areas when they were categorical programs. In the case of community services, moneys went directly from the federal government to local providers. In most of the 13 states, these block grants are distinct programs supported solely with federal funds. (See pp. 9 and 10.)

State program officials in over half of the cases examined said that block grants led to improvements in planning and budgeting. They indicated that block grants added flexibility which enabled them to better integrate related federal and state activities. Improvements were made more often in programs like maternal and child health where states perceived the greatest increase in flexibility. For certain programs, however, states' ability to more fully integrate block grants with state agendas was constrained by federal restrictions. (See pp. 11 to 13.)

BLOCK GRANTS INTEGRATED INTO ESTABLISHED DELIVERY SYSTEMS

The 13 states GAO visited were not required to make significant changes in state organizations or service delivery frameworks. Their substantial involvement with prior categorical programs and their own programs enabled states to use existing organizations and provider networks to implement social services, health, energy assistance, and education programs. (See pp. 13 and 14.)

In some cases, however, states consolidated offices or further integrated service delivery under related programs. Under the education block grant, for example, 5 of the 13 states merged state offices. Also, because many awards under the prior programs were made directly to local providers, the alcohol, drug abuse, and mental health block grant provided substantial opportunities to integrate federally funded activities into established state delivery networks which included county or regional agencies. (See pp. 15 and 16.)

Community services posed particular management challenges. In contrast to the other block grants, states had a minor role under the prior categorical programs and in most cases did not support comparable activities. States consequently had to develop an administrative structure and cultivate new relationships with service providers. (See pp. 16 and 17.)

Across all seven block grants, states generally did not delegate increased discretion to local governments. Reflecting the integration of block grant funds in established delivery systems, states applied controls and restrictions to block grant-supported service providers that have been imposed for other state programs. Twelve of the 13 states imposed restrictions and requirements--in addition to federal requirements--such as local matching of funds or prior state approval of hiring actions. (See pp. 18 and 19.)

INCREASED MANAGEMENT DUTIES ASSUMED THROUGH ESTABLISHED PROCEDURES

In overseeing block grant funds, states have been encouraged to interpret the legislation and rely on existing management procedures rather than look to the federal agencies for such guidance. Due to their prior involvement in health, social services, and energy program areas, states generally did not change their levels of monitoring devoted to these block grant programs. Service providers were usually monitored for their use of block grant funds in conjunction with related state programs.

The 13 states had to make substantial adjustments to manage the community services block grant due to their lack of prior involvement. While six states initially adopted federal administrative procedures used for the categorical programs, these states are moving to establish their own procedures, as did the other seven states from the outset. (See pp. 23 to 25.)

The block grant legislation required states to arrange for independent financial and compliance audits of program expenditures. Generally, states were covering block grants at the state level through department-wide single audits of agencies. Such efforts, however, were complicated by inconsistencies between federal single audit policy and individual block grant statutory requirements regarding audit scope and frequency. The 1984 Single Audit Act created uniform audit requirements for federal assistance to state and local governments. Once properly implemented, the legislation should improve states' ability to cover block grants through broader single audits. (See pp. 26 to 30.)

While states assumed management responsibility, federal technical assistance on applications, reporting, and funding restrictions proved helpful in more than half of the cases examined. However, assistance on data collection issues or management procedures was sought in less than one-third of the cases.

Although assistance was provided in 82 percent of the cases where states requested it, federal agencies would not provide further clarification or interpretation of certain statutory provisions. Consequently, some state officials looked to their own rules or national professional associations for guidance, while others chose to continue to use categorical rules. As states have gained experience with these programs, however, their need for additional federal technical assistance has reportedly diminished. (See pp. 31 to 35.)

ABSENCE OF NATIONAL DATA PROMPTS STRENGTHENING OF REPORTING PROCESSES

Consistent with the administration's desire to minimize federal intrusion, states were given discretion to determine the form and content of block grant data collected and reported to federal agencies. States were tailoring their data collection systems primarily to their own budgetary and legislative needs. As a result, information reported to the federal government was not consistent across the states. To help provide a national picture of certain programs, the Congress acted in 1984 to add new data collection provisions to five of the seven block grants. (See pp. 35 to 40.)

BLOCK GRANTS PROMOTE MANAGEMENT IMPROVEMENTS

Block grants have provided opportunities to streamline and improve administrative management. For example, state officials in about 68 percent of the cases reported that block grants reduced the time and effort devoted to federal applications and reporting. Further, in 33 percent of the cases, state officials cited improvements in using their personnel. (See pp. 42 to 45.)

Block grants also prompted states to standardize or change their administrative procedures in 67 percent of the cases. These included both standardizing reporting and administrative procedures across block grants and extending state procedures to block grant programs. In other cases, however, administrative changes led to increased or more stringent requirements, as states increased their oversight of service

providers in response to their greater responsibilities. (See pp. 46 to 49.)

While block grants prompted considerable administrative simplification, they also ushered in new state management responsibilities. GAO was not able to measure the effect of these competing forces on state administrative costs. The absence of uniform and consistent data at the state level and comprehensive baseline information on the administrative costs of prior categorical programs precluded such measurement. (See pp. 49 to 51.)

CONCLUDING OBSERVATIONS

Several aspects of states' block grant experiences may be useful in considering future proposals. First, block grants provide the greatest opportunity for better coordination with state activities where states have had substantial involvement in prior federal categorical or related state programs. In these cases, state rather than federal policies provided the management framework, permitting various improvements and administrative simplifications. In contrast, block grants provide more challenges where states have little prior involvement. Programs like the community services block grant required states to develop new management systems and organizations, sometimes prompting increased state staffing.

Second, although states were delegated greater responsibilities, an intergovernmental partnership in certain areas could be helpful for future block grants. Federal technical assistance would be helpful to states in initially adjusting to new roles although the need for such assistance may decrease as states gain experience. Also, because of its policymaking and oversight roles, the Congress should pay particular attention to its information needs in designing future proposals. Although national reporting standards may entail some loss of state flexibility, the availability of national data should permit better assessments of how well block grants are meeting the needs of those served.

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ABBREVIATIONS

ACIR	Advisory Commission on Intergovernmental Relations
ADAMH	alcohol, drug abuse, and mental health
CSBG	community services block grant
ED	education
HHS	Department of Health and Human Services
GAO	General Accounting Office
LEA	local education agency
LIHEA	low-income home energy assistance
MCH	maternal and child health
OMB	Office of Management and Budget
PHHS	preventive health and health services
SSBG	social services block grant

CHAPTER 1

INTRODUCTION

As a part of the Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35), the Congress consolidated numerous federal categorical grant programs into nine block grants covering a wide range of domestic assistance areas. Four block grants relate to health services, and one each to social services, low-income energy assistance, education, community development, and community services. These block grants provided states with greater decision-making authority than the prior categorical programs.

A central purpose of these block grants was to permit states and their local governments to manage federal funds in a more coordinated and efficient manner. States were given considerable discretion and responsibility to plan and manage program activities in accordance with state priorities and procedures, as both federal regulations and the federal oversight role were substantially reduced. Consequently, considerable interest has been generated over how states would use the expanded flexibility to meet these increased managerial responsibilities.

This report examines how 13 states have set priorities and managed the use of block grant funds. It is one of a series issued on block grant implementation (see app. I). Earlier reports focused on state implementation of each block grant and summarized our conclusions on a range of issues, including funding trends, program modifications, and public accountability. Each report also included detailed information on state efforts to manage the programs supported with funds from each block grant.

BLOCK GRANTS EXPECTED TO OVERCOME MANAGERIAL WEAKNESSES OF CATEGORICAL GRANTS

Block grants were promoted as a way to overcome perceived problems with the categorical approach to delivering federal assistance to state and local governments. Categorical grants are narrow in scope and objectives and typically accompanied by numerous federal programmatic and administrative requirements specifying objectives to accomplish as well as the means to achieve them. In 1981, the federal government funded over 500 categorical grant programs comprising approximately 80 percent of the $94.8 billion in federal assistance provided that year to state and local governments.

Studies of the federal assistance system, including those of GAO and the Advisory Commission on Intergovernmental Relations (ACIR), concluded that categorical grants have impeded the planning and implementation of state and local projects.[1] The proliferation of numerous related categorical programs in key functional areas has promoted an overly fragmented system of service delivery, sometimes leading to costly duplication of services. As noted in a 1981 Senate committee report proposing the block grant legislation, categorical programs and their attendant regulations (1) did not provide adequate flexibility to meet state and local needs and priorities and (2) were not well integrated or coordinated with related services provided by the states. The report stated that the extensive federal administrative requirements imposed a burdensome and costly layer of red tape and administrative overhead at the state and local level.

By consolidating many of these programs and reducing federal administrative requirements, proponents of the 1981 block grants believed that services could be provided more effectively and at lower cost.

--First, it was expected that states would implement the programs pursuant to their own priorities and needs and use their flexibility to integrate or better coordinate fund allocation and service delivery with related state programs.

--Second, the states were expected to assume principal responsibility for fiscal and programmatic accountability. State procedures, not federal requirements, were to become the primary administrative criteria for these federal funds with little reliance on federal interpretations or guidance.

--Third, it was expected that greater operating efficiency would be achieved due to less federal administrative requirements as well as the elimination of overlapping federal programs. States would have greater opportunities to streamline or standardize administrative procedures for related programs. The administration believed that

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[1]For GAO's perspective, see Fundamental Changes Are Needed in Federal Assistance to State and Local Governments (GGD-75-75, Aug. 19, 1975). ACIR has issued several reports on this subject, including the 14 volume study, The Intergovernmental Grant System: An Assessment and Proposed Policies, published during 1976 to 1978.

the savings accruing from increased efficiency would offset some of the funding cuts accompanying these block grants.

The administration hoped that states would, in turn, minimize the extent of regulation and thus pass on discretion to local governments involved in providing services.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objective of this report is to describe the managerial changes brought about by these block grants by examining several areas of state planning and management, including

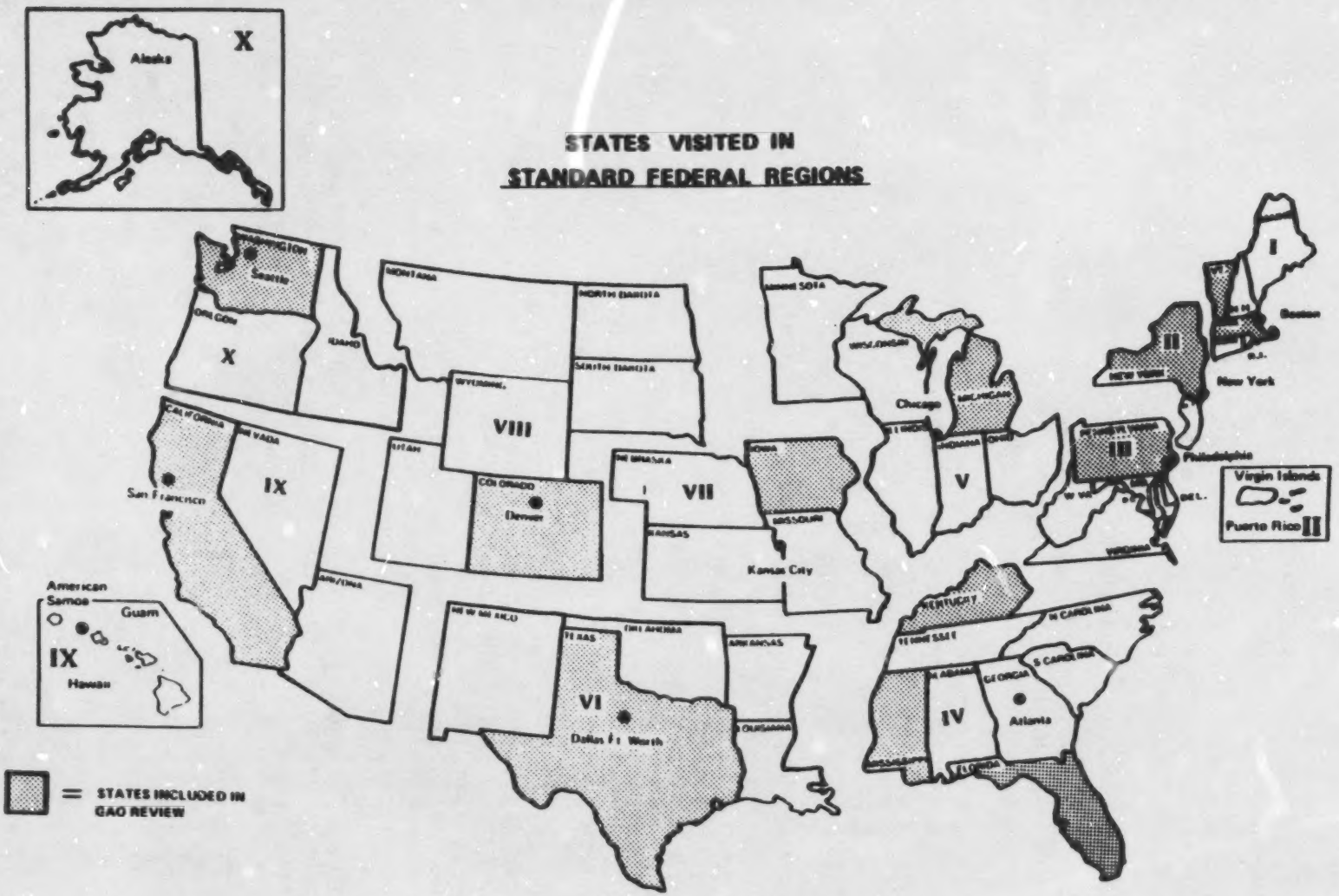
--the planning processes used by states to set priorities for the use of block grant funds,

--the states' organizational framework and networks used for the delivery of services supported by block grant funds,

--the processes used by states to oversee block grant expenditures, and

--the perceived effects of the block grant approach on state administrative burdens and processes.

As shown in the map on the following page, we conducted our work in 13 states: California, Colorado, Florida, Iowa, Kentucky, Massachusetts, Michigan, Mississippi, New York, Pennsylvania, Texas, Vermont, and Washington. These states were selected to attain geographic balance and to include states with (1) differing fiscal conditions and varying ranges of per capita incomes, (2) varying degrees of involvement by state executive and legislative branches in overseeing and appropriating federal funds, and (3) varying service delivery systems. At least 1 state was selected in every standard federal region and, in total, the 13 states accounted for approximately 46 percent of all 1983 block grant funds and about 48 percent of the nation's population. Our sample of 13 states represents a judgmental selection. Therefore, our results may not be projected to the nation as a whole.


STATES VISITED IN
STANDARD FEDERAL REGIONS
X
Alaska
X
Seattle
IX
San Francisco
VIII
Denver
VII
Kansas City
VI
Dallas Ft Worth
V
Chicago
IV
Atlanta
III
Philadelphia
II
New York
I
Boston
Virgin Islands
Puerto Rico II
American Samoa
Guam
IX
Hawaii
= STATES INCLUDED IN GAO REVIEW

This report focuses on seven of the nine block grants enacted in 1981: maternal and child health services (MCH); preventive health and health services (PHHS); alcohol, drug abuse, and mental health services (ADAMH); social services (SSBG); community services (CSBG); low-income home energy assistance (LIHEA); and education (ED). Total national appropriations for these block grants averaged about $6.4 billion a year for fiscal years 1982 through 1984. Our analysis of the small cities community development block grant dealt with different states and preceded the study of the other grants because that work had to be completed for reauthorization hearings in early 1983. The primary care block grant was omitted because only one state chose to administer it.

The data we collected focused on state implementation policies and practices and were obtained between June 1983 and June 1984.

Nearly identical questionnaires were given to state program officials responsible for each of the seven block grant programs in each of the 13 states. For each program, this instrument included detailed questions on state planning, public participation approaches, state data collection efforts, states' use of federal technical assistance, state monitoring and oversight practices, and the effects of block grants on state management and administrative procedures. Since the questions asked were generally the same for each block grant, we were able to compare and aggregate responses across all block grants. The questionnaire was pretested and externally reviewed, prior to its use, by knowledgeable state program officials.

The questionnaires were completed by senior level program officials who had primary responsibility for administering the block grants in the 13 states included in our study. We specified in the questionnaire that the responses should represent the official position of the program office. We received completed questionnaires for each of the seven block grants from the 13 states.

To examine the administrative cost issue, we developed a different standardized data collection instrument which was also to be filled out for each of the seven programs in each of the 13 states. Here we asked a number of detailed questions regarding how states defined administrative costs for block grant programs and for prior categorical programs. We also sought to obtain information on state policies regarding the administrative costs for local subrecipients.

We also used an audit guide for each block grant to collect information on administrative organization and management of

these programs in each state. For each block grant in each of the 13 states, summaries were prepared describing state program implementation, including their planning processes, selection of local service providers, and requirements imposed on these providers. We briefed state officials on the information contained in these summaries and offered them the opportunity to comment on its accuracy and completeness. The summaries were modified, where appropriate, based on comments provided by state program officials.

For the section on block grant auditing in chapter 3, we conducted a set of separate interviews with state audit and program officials in the 13 states. These interviews focused on how states were planning to meet their block grant audit responsibilities both at the state and substate levels. These state officials were also asked about any problems they were experiencing in implementing the audit provisions of the block grants. Because many state audits were in process at the time of our fieldwork, it was too early to assess the adequacy of state audits.

Federal agency officials were interviewed on the federal role in block grant implementation. Officials at the Office of Management and Budget (OMB), the Department of Health and Human Services (HHS), and the Department of Education were interviewed on the federal role in block grants, the federal position on data collection, and the federal view of block grant auditing requirements.

Our work was done in accordance with generally accepted government auditing standards, except we did not obtain agency comments on this report. Comments from HHS and the Department of Education were not obtained because the information presented is largely based on data presented in our earlier reports on each block grant program (see app. I). These reports were reviewed in draft by federal agency officials, who generally concurred with the findings.

CHAPTER 2

STATES INTEGRATE BLOCK GRANT MANAGEMENT INTO BROADER PROCESSES AND SYSTEMS

Block grants were intended to afford states greater control over the delivery of health, education, community services, energy assistance, and social services by providing them new flexibility in allocating funds and choosing program strategies. With the expanded authority available through the consolidation of programs and reduction in federal requirements, states would be better able to make decisions on the use of block grant funds consistent with state agendas and to provide these services through delivery systems in place for related state programs. Thus, states could develop more comprehensive assistance systems tailored to state priorities and processes.

States we visited generally used broader decision-making processes and existing state service delivery networks for block grants which address program areas where states historically had a substantial financial commitment and administrative involvement. In those instances, the expanded authority enabled states to manage block grants through systems used for related state programs.

In contrast, certain block grants provide funds for areas receiving little or no additional state support and/or contain statutory restrictions on state decisions regarding activities or service providers to be funded. For these block grants, states generally made decisions on the use of block grant funds apart from those made on other state programs and retained the service delivery structure in place under the prior categorical programs.

INTEGRATION OF PLANNING INTO STATE PROCESSES VARIES

The extent to which planning for the block grant programs was integrated into broader state processes varied with the degree of discretion delegated to the states and the level of state involvement in the program areas addressed. Except where limited by statute, states we visited made decisions on the use

of health, social services, and the state portion of the education block grant funds[1] within the context of broader state goals for the delivery of related services. In contrast, most states set separate priorities specifically for the community services and low-income home energy assistance grants, reflecting in part the lower level of state financial involvement in these program areas.

Broader state planning and budgeting processes influence use of certain block grant funds

Decisions on the use of health, social services, and the state portion of education block grant funds were most often made concurrently with the development of, or reflect, broader state goals and priorities for delivering related services. Plans prepared for these block grants generally were either derived from, or consistent with, basic allocation decisions made during the state budgetary or other broad decision-making process. For example:

--In Washington, programs listed in the MCH, PHHS, and SSBG applications were identified primarily through the process used to develop the state health and social services agency budget for the 1981-83 biennium. In response to actual state and anticipated federal funding reductions, the agency instituted a detailed budget planning process to review services and develop a list of priorities and possible areas for cutbacks. Block grant funds were considered as revenue sources available to support state efforts.

--Florida's ADAMH plan and state operating budget for substance abuse and mental health services were based on objectives and data developed through a comprehensive planning process defined by state law. Guided by a statewide plan, the 15 District Mental Health Boards prepare plans and budgets for the use of local as well as state-provided funds, subject to the approval of state program and local elected officials.

--Colorado officials indicated that state Board of Education priorities, established biennially through a broad-based planning process, were followed in allocating the state portion of 1983 block grant funds.

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[1]States may retain up to 20 percent of their block grant allocation for their own use. They are required to pass 80 percent of the allocation to local educational agencies, which have virtually complete discretion on how to use the funds.

Although block grant planning is integrated with states' overall social services and health planning and budgeting processes, the extent of integration varies among the states we visited. In several instances, the processes are closely intertwined and block grant plans are prepared directly from comprehensive budget or planning documents. There is a particularly strong relationship between the two processes in Vermont, where the comprehensive services plan prepared by the Agency of Human Services was used both for legislative and public consideration during the state's budgetary process as well as submitted as the fiscal year 1983 application for HHS-administered block grants and five major categorical programs. In New York, however, priorities for allocating PHHS and MCH block grant funds were set by the health department during a federal funds budget process established in March 1983, similar to the state budget process but timed to coincide with the federal fiscal year. This budget process for federal funds was ultimately integrated with the state-funded portion through an overall submission to the state legislature.

The integration of planning for the health and social services block grants into more comprehensive planning and budgeting processes reflects the level of state financial involvement in these program areas. For example, over half of total 1983 expenditures for maternal and child health programs in 9 of the 13 states came primarily from state sources. Also, the percentage of social services expenditures derived from state and other nonfederal sources exceeded 45 percent in 8 of the 13 states.

Block grant funds represent only a portion, albeit significant, of total dollars devoted to these programs in the states we visited. Rather than operating as a separate activity, these block grants constitute funding sources available to support related state health and social services programs. As noted in their 1983 MCH application, Pennsylvania health department officials viewed the MCH block grant funds as "influencing dollars" within the larger framework of the total plan for the state MCH program and use these funds to bolster activities which parallel major program goals and priorities.

Limited integration of CSBG and LIHEA planning with broader state processes reflects lower state involvement

In contrast to decisions made on the use of health, social services, and the state portion of education block grant funds, states we visited generally set priorities specifically for CSBG and the LIHEA block grant. Low-income home energy assistance and community services activities in most of these states are distinct programs supported solely with federal funds. As a

result, planning for the use of block grant funds tended to be done separately by the states and was not treated as part of a broader state process.

Officials in 11 of the 13 states indicated that separate priorities were set for LIHEA. Although states administered the prior categorical program as well as other federally funded energy assistance activities, only 3 of the 13 states allocated state funds for these services in 1983. Program officials in one of these states--Michigan--indicated that LIHEA funds were basically allocated according to state priorities, derived through the administering agency's management planning process.

Assumption of CSBG presented states with new planning and budgeting responsibilities. States had only a minor role in the prior federal community services programs, as about 99 percent of 1981 funds awarded in the 13 states went directly to community action agencies and other local level providers. Ten of the 13 states neither funded or operated their own related community services programs prior to the block grant nor initiated such activities in 1982 or 1983.

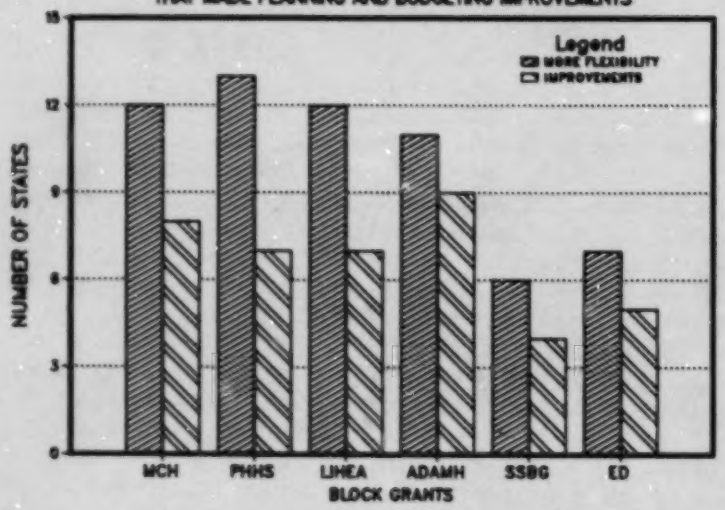
Few states took advantage of the flexibility available to determine what community services would be offered and to design programs to meet state needs. Instead, most delegated significant discretion to local service providers to determine services to be delivered within the broad parameters established by the federal legislation. For example, Washington's 1984 CSBG plan, which was developed in consultation with representatives of local community services agencies, cites as allowable activities those included in the block grant statute with no indication of state priorities. It also notes that programs funded are to be designed by local public and private agencies in response to locally identified problems.

In 1984, only 3 of the 13 states articulated service priorities for their CSBG program. Pennsylvania--which supported community services with state funds during the 1981-83 period--required providers to use 50 percent of their allocations in 1983 to meet the state's objective of ameliorating poverty through employment training, and/or economic development activities and continued to emphasize these activities in 1984. Similarly, Mississippi specified services and activities related to combating poverty that service providers had to address, including housing assistance, outreach and referral, and health and nutrition. For 1984, California officials identified, but did not mandate, economic/job development and resource development as two new service priorities for its program.

New state discretion under most block grants encouraged improvements in planning

In over half of the cases, officials in the 13 states indicated that planning and budgeting improvements were made as a result of the block grants.[2] As shown in chart 2.1, the number of instances in which improvements in planning and budgeting were made was greater under those block grants which program officials believe permitted greater state flexibility in allocating funds and setting program priorities than was available under the prior categorical programs.

CHART 2.1
COMPARISON OF NUMBER OF STATES WHERE OFFICIALS BELIEVE BLOCK GRANT PROVIDES GREATER FLEXIBILITY TO NUMBER THAT MADE PLANNING AND BUDGETING IMPROVEMENTS



MORE STATES MADE PLANNING IMPROVEMENTS UNDER THOSE BLOCK GRANTS BELIEVED TO PROVIDE GREATER FLEXIBILITY IN SETTING PROGRAM PRIORITIES

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[2]Our analysis of trends across the 6 block grants in 13 states comprised a total of 78 cases. Data were not collected for the CSBG because states had little involvement in administering the prior categorical programs.

Improvements made in planning and budgeting cited by state health program officials reflect states' ability to better integrate management of federal and related state programs. For example:

--Colorado alcohol and drug abuse officials explained that the state's ability to apply existing planning and budgeting procedures to decisions made on the ADAMH block grant allowed for more uniform and efficient administration of all alcohol and drug abuse funds.

--Florida officials noted that the inclusion of ADAMH funds into the annual legislative appropriation process provided greater unity of purpose in the expenditure of resources.

--Mississippi health department officials indicated that eliminating the prior stipulation for state support of certain more narrowly targeted projects permitted a consolidation of all MCH services into the maternal and child health and the crippled children program areas. They believe this consolidation of programs allowed for more efficient, less duplicative service delivery. Also, the requirements for preparation of MCH and PHHS applications have expedited development of a comprehensive agency-wide health care planning process.

Officials in all but one of the states we visited believe the LIHEA block grant provides greater flexibility in determining the use of funds, most often citing the ability to determine eligible services and the option to transfer funds to other programs as aspects adding to their discretion. While states generally continued to develop separate priorities for this block grant, planning and budgeting improvements noted by officials in seven states illustrate states' use of their increased program and administrative discretion. For example, Kentucky and Massachusetts staff explained that they were better able to define and target assistance benefits according to need, and Texas and Washington officials cited their ability to use funds for energy crisis, weatherization, and other block grant programs.

Compared to the health and energy assistance programs, the social services and education block grants were more often viewed as providing equal or less flexibility to the state than the prior categorical programs. Also, officials in fewer states cited improvements in planning and budgeting as directly attributable to these block grants, as indicated in chart 2.1. Officials in 7 of the 13 states reported that the SSBG provides about the same flexibility that was available in the past.

Although federal requirements were reduced, the prior social services program authorized under title XX of the Social Security Act, as amended, supported the same broad goals and in many respects functioned as a block grant.

The education block grant legislation expands the scope of state involvement in federally funded education programs, but limits state authority over determining how the majority of funds are to be spent. Although each state is responsible for developing a formula for distributing at least 80 percent of its allocation to the local educational agencies (LEAs), these agencies are given virtually complete discretion regarding how they will use the funds. Thus, the states' ability to consider education block grant funds as complementary to state aid to LEAs was limited. For example, in four states, officials indicated that the state education agency had lost flexibility under the block grant and emphasized their lack of authority regarding the use of 80 percent of the funds passed on to the LEAs. New York officials commented that under the prior categorical programs, the state had the flexibility to establish priorities for local expenditures within broad statutory purposes.

MOST BLOCK GRANTS PERMIT STATES TO USE AND STRENGTHEN EXISTING SERVICE DELIVERY NETWORKS

Although the block grants generally expanded the scope of their involvement in federal assistance programs, states we visited were not required to make major organizational changes to assume their new responsibilities for most block grants. Proceeding from their role under the prior categorical programs as well as their substantial financial commitment to certain program areas, states had a service delivery structure in place through which social services, energy assistance, health, and education programs were implemented.

In some instances the block grant approach did encourage changes in state offices and service providers, as states used their increased authority to determine funding priorities and program design or to consolidate the delivery of related federal and state services. Particularly under ADAMH, where the block grant replaced categorical programs directed to local level providers, the channeling of these funds through the state system constituted a significant departure from prior practices.

States' prior involvement limits need for service delivery system changes

As the principal grantees of funds awarded in 1981 under programs consolidated into the SSBG, LIHEA, MCH, and PHHS, states we visited were able to implement these block grants through an existing service delivery network with little change.

Because prior title XX awards could be used for a broad array of social services which also received substantial support from the states, SSBG was not an impetus for major program design or service delivery system changes. The 13 states generally continued to provide social services through delivery structures in place prior to fiscal year 1982, with 12 states reporting no changes in service provider eligibility requirements and 11 reporting no changes in the emphasis placed on using different types of providers. However, in response to the change in federal requirements, Pennsylvania and Vermont eliminated offices responsible for the specific data collection and reporting requirements attached to the prior title XX program.

LIHEA offered states new discretion to use energy funds for a broader range of energy assistance activities than previously authorized. In exercising this flexibility, states did not have to create a new service delivery system, but implemented these additional program components through state agencies and local level service providers involved in delivering these services under other federal programs. Only Iowa consolidated the delivery of all state energy assistance programs into one state agency subsequent to enactment of the block grant.

States were also able to accommodate MCH and PHHS block grant implementation without major changes in the state service delivery structure due to their substantial involvement in providing services supported by each block grant. Responsibility for the activities funded under the block grants was generally assigned where possible to state offices experienced in program administration, and states generally retained existing service provider networks.

Four of the 13 states, however, made or planned to make changes at the state level which were made possible by the consolidation of programs and greater discretion available under the MCH and PHHS block grants. For example, Mississippi integrated the former Supplemental Security Income (SSI) program for disabled children into its broader crippled children's program and consequently transferred SSI responsibilities from the state public welfare department to the health department. In Iowa, the university coordinated its crippled children's services with its cancer, hemophilia, genetics, and perinatal units under one umbrella agency. This was done to increase the university's flexibility in using MCH block grant funds.

Although states have attempted to maintain continuity with funding patterns established under the prior categorical MCH and PHHS programs, in some cases they changed emphases placed on the scope and location of services provided or in the role of various organizations in the service provider network, particularly

for more narrowly defined programs which had previously been mandated or directly funded by the federal government. For example, of the 12 states that continued to support emergency medical services through 1983 under the PHHS block grant, 6 broadened the program's geographic coverage or the types of services offered, affecting the number or types of entities funded. Michigan has moved from funding three regional systems to 13 local providers, and Pennsylvania allocates block grant funds to all emergency medical services regional systems, including those which did not receive categorical funds.

The education block grant did not require states to assume responsibility for program areas for which they had little significant administrative experience and financial commitment, nor did it necessitate the development of new relationships with local level service providers. However, 5 of the 13 states did make organizational changes in response to the consolidation of programs and reduced administrative requirements. Such changes included the merger of offices and other steps to better coordinate related programs and improve efficiency. For example, Florida's categorical programs had been administered by several bureaus within the states's education department. Under the block grant, all responsibilities were assigned to one bureau, which state officials believe to be a more efficient means of program administration.

ADAMH permitted increased coordination of related state and federal programs through state service delivery systems

To a greater degree than the other block grants, ADAMH provided substantial opportunities to integrate block grant funds into the systems used for related state activities. Under some of the prior categorical programs, most notably those supporting community mental health service and alcohol abuse projects, federal funds were generally provided directly to local service providers, bypassing state governments and the service delivery systems used for related state programs. As well as administering some of the categorical programs consolidated into ADAMH, states historically funded their own alcohol, drug abuse, and mental health activities. The service delivery networks used for these state-administered programs paralleled those supported by certain federal categorical grants--most notably for community mental health centers and for alcohol abuse projects--where funds were awarded directly to local service providers. In 8 of the 13 states, funds for at least one of the three program areas are allocated through county or regional entities, which share in substate allocation decisions and, in most cases, award funds to local providers.

Although none of the 13 states had revised policies governing the types of organizations eligible to receive ADAMH funds, integration of all federal funds into the state system strengthened the role of the county or regional entities and, in some cases, broadened the distribution of federal moneys. For example, California integrated funding for nonprofit service providers into the county-based structure developed for its own substance abuse and mental health programs. Under that structure, most block grant as well as state funds are now administered by counties pursuant to local plans. One county official indicated that the block grant has thus reinforced the county's role in planning and administering these funds. Similarly, Pennsylvania distributes substance abuse and community mental health funds through county-based networks. In 1982, all 43 county authorities for substance abuse received federal money, 14 of which had not previously received federal alcohol or drug abuse funds.

Although the block grant required states to continue funding certain community mental health centers, many states also supported these centers as part of the state program network.[3] For example, the Colorado Division of Mental Health already supported the 13 centers receiving federal funds in 1981 as part of the state community mental health centers network. State officials did not treat ADAMH funds separately but incorporated them into the established planning and funding process. Similarly, prior to the block grant, Vermont provided funds to the five centers which had received federal funding in 1981 as part of their delivery system.

NEW RESPONSIBILITIES UNDER THE CSBG REQUIRED STATE-LEVEL ORGANIZATION ADJUSTMENTS

Under CSBG, states were assigned a new role in administering community services. Unlike other block grants, the community services area was one where most states we visited had little prior involvement, and service providers had dealt primarily with federal officials.

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[3]To receive their annual block grant allotment, states must agree to make grants to each center that received a grant under the prior community mental health centers program in fiscal year 1981 and that would have been eligible to receive an operations grant under this program in the appropriate allotment year.

States we visited made changes in the designation, organizational placement or staff composition of the office responsible for administering CSBG. Because states' prior administrative experience was very limited, an established state framework for accepting these new responsibilities was not always present. Five states assigned CSBG management to new or different offices than those which operated a small categorical grant to provide technical assistance or changed the status of the existing office. For example, Kentucky assigned CSBG responsibilities to its Department of Social Services instead of its former economic opportunity office. Also, the Michigan Bureau of Community Services, which had operated the prior state categorical program under the authority of executive order, was officially established by the state legislature in 1982. Washington, which did not increase staff, changed the internal organization of the Planning and Community Affairs Agency from sections assigned to administer separate programs--weatherization, Head Start, and community services--to sections assigned certain program functions, including field assistance and program development. Four of the states increasing the number of persons assigned to these offices added specialized staff to meet the new program responsibilities.

CSBG also required states to develop new relationships with the service providers, generally community action agencies, whose continued participation in the block grant-funded program was ensured by legislation. The legislation restricted state options for determining which organizations could receive 90 percent of their block grant allocations. Colorado was the only state we visited that received a waiver allowing the state to distribute funds to counties beginning in 1983.[4]

Although states' flexibility to determine the types of service providers under CSBG was limited, 9 of the 13 states used their new authority to institute new methods of distributing community services funds that included poverty based factors. Also, states in several cases funded new entities or otherwise expanded the coverage. For example, Texas extended services to 91 previously unserved counties by providing additional funds to existing service providers to expand their operations. In 1983, Pennsylvania funded 14 new organizations because it wanted to serve new locations and provide additional services.

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[4]The other 2 states nationwide that received waivers--Utah and Wyoming--were not among the 13 states visited.

STATES IMPOSED ADDITIONAL REQUIREMENTS ON SERVICE PROVIDERS

While block grants provided additional authority and flexibility to the states, most states have not yet taken action to decentralize their authority over block grant programs to local governments. States have traditionally maintained various controls over local finances and management. States' application of various restrictions on local providers generally reflects the use of established state systems and rules to administer block grant programs.

At least 12 of the 13 states have imposed restrictions and requirements--in addition to the federal block grant requirements--on service providers, including local governments, under each of the CSBG, LIHEA, SSBG, PHHS, and MCH block grants. Such requirements include obtaining prior state approval before undertaking certain actions, such as hiring and procurement, and matching funds received from the state with other funds. For example, in California, counties providing SSBG are required to match funds received from the state with funds from other sources even though the state is not required by the federal government to provide a state matching share for this program. Similarly, in 1983, seven states required local service providers to match CSBG funds, even though the federal matching requirement has been eliminated.

Although the trend at the time of our fieldwork was to impose additional requirements, some notable exceptions exist. As previously noted under the legislation, LEAs have virtually complete discretion over the use of education block grant funds passed through by the states, which are thereby limited in their ability to constrain local actions. For other programs, some states we visited have nevertheless initiated efforts to give local governments increased discretion for one or more block grants. For example, by consolidating funding from one or more of the health and social services block grants, three states have allowed local governments greater flexibility in the use of funds.

--In response to county officials' requests for greater flexibility and responsibility, the Pennsylvania Department of Public Welfare established the Adult Services Block Grant in July 1982. Funds are allocated to county governments which select 1 or more of 13 state-specified services to be offered and the service delivery techniques to be used. At least 75 percent of a county's grant must be spent on low-income adults with no mental disability and no more than 10 percent may be used for county administrative costs. Two years later, the

department initiated the Human Services Development Fund, designed to increase county discretion as well as to improve coordination among local human service programs. Counties may use funds for services addressing at least one of six major program areas and for management activities undertaken to provide or to improve coordination among such services. SSBG funds are used to support both of these programs.

--The Texas Department of Health has also made use of the "mini-block grant" concept in providing discretion to local entities. Under the PHHS-funded health incentives program, local health departments may choose to provide a variety of services according to their needs.

--Washington tested consolidated contracts with four local health agencies in an effort to pass on additional flexibility. These contracts combine several programs funded through MCH, PHHS, and SSBG. According to the state health agency director, this procedure will afford the local health agencies the same flexibility that states are given under the block grants. State officials plan to continue these contracts in 1985.

In other instances, states have delegated additional discretion in setting program priorities to local governments to mitigate the effects of reduced federal funding. For example, the Iowa Department of Human Services strengthened the counties' role in the planning process by permitting them to choose how funds for purchased services will be spent. Before 1983 all counties within a single district were required to provide similar services. Similarly, California reduced the number of programs required to be provided by the county welfare departments and repealed certain regulations on the content of state-mandated services to realize necessary economies and permit greater local flexibility to meet unique needs.

CONCLUSIONS

The extent to which planning for the block grant programs was integrated into broader state processes depended primarily on the level of state financial commitment to the program areas. In most cases, decisions related to social services, health, and the state portion of the education block grant were developed concurrently with or reflected goals established for related state programs. For the most part, state officials believed that the additional flexibility under these block grants enabled them to better integrate these funds into broader state plans. In several cases, federal constraints did limit states' ability to use state goals in determining the use of funds. Although

states received expanded authority under CSBG and LIHEA, they made decisions on the use of these funds separately, reflecting, in part, the traditionally low level of state financial commitment to these program areas.

The high level of state financial commitment or involvement under most of the prior categorical programs enabled states to rely, in large part, on existing service delivery systems. Prior service providers generally remained eligible to receive block grant funds although certain changes were made in the service delivery network. These changes reflect states' use of their increased flexibility to choose the providers and better integrate the delivery of federal and state-funded services. Improvements in integration of related federal and state programs were especially prevalent in programs like ADAMH, where states gained control over federal funds previously sent directly to local providers, bypassing established state service delivery systems. In contrast, most states were required to establish an administrative structure under CSBG because of their limited prior involvement. Further, statutory restrictions on eligible service providers led states to retain the categorical service delivery system.

Although the block grants provided additional flexibility to the states, most did not pass on this discretion to local governments. Requirements, such as obtaining prior state approval for actions like hiring and procurement, reflect the fact that block grant funds are now subject to the same laws and procedures that control the use of state funds.

CHAPTER 3

STATES GENERALLY ASSUME BLOCK GRANT MANAGEMENT RESPONSIBILITIES BY USING ESTABLISHED STATE PROCEDURES

Along with their expanded authority to determine the use of program funds, states have been delegated the responsibility to manage block grant funds. Accordingly, great reliance is placed on states' own systems and procedures to monitor program performance and compliance with requirements. Although initially requesting federal technical assistance to help implement federal requirements, states have carried out these expanded oversight responsibilities largely through existing state systems, reflecting their long-standing administrative and financial commitment in many of the block grant program areas. Further, states have also arranged for audits of block grant expenditures through their existing systems for auditing federal and state money, mostly as part of department-wide or state-wide audits.

Nevertheless, the Congress has expressed concern about the ability of the federal government to adequately assess national trends and effects of the block grants. Specifically, the Congress was concerned with the administration's decisions permitting states to determine the form and content of block grant reports because they did not produce consistent national data needed to answer key questions on block grant performance. Consequently, in 1984 the Congress strengthened national data collection procedures when reauthorizing five of the seven block grant programs.

FEDERAL GOVERNMENT DELEGATES PRINCIPAL OVERSIGHT ROLES TO STATES

In implementing the block grant programs, the administration sought to maximize the delegation of discretion and flexibility to block grant recipients. Accordingly, primary responsibility for oversight and accountability for block grant expenditures shifted to the states from the federal government. As a result, traditional federal management activities have been curtailed. For example, in reviewing block grant applications, HHS limits its role to assuring that applications are complete and contain the information and assurances required by statute. The Department contends it has no explicit authority to approve a state's intended use of block grant funds beyond verifying that states make certain statutory assurances, such as maintaining adequate fiscal controls and complying with civil rights laws, in their application.

Also, unlike the regulations accompanying the prior categorical programs, the block grant regulations do not interpret legislative provisions. Rather, HHS has chosen to rely on state interpretations partly because several federal statutes specifically preclude the Secretary from prescribing the manner of compliance with legislative requirements. HHS has not, for instance, defined state administrative costs, which are limited to certain dollar percentages in several programs, or explained the meaning of prohibited activities such as construction. HHS further indicates that it will not challenge state actions or interpretations unless they are clearly erroneous.

Similarly, the Department of Education has limited its regulations to those considered essential to carry out federal statutory provisions. The block grant legislation prohibits the Secretary from issuing regulations on the details of state and local planning and management except where needed to assure proper fiscal accounting or compliance with statutory provisions.

Consistent with the administration's overall philosophy, block grant regulations place principal reliance on states' own procedures to manage and oversee block grant funds. Accordingly, HHS and Education regulations exempted states from the usual federal grants management requirements and cost principles contained in OMB Circulars A-102 and A-87. HHS said that the state's own laws and procedures should be used to administer block grant funds. Thus, state procedures and criteria, not federal regulations, will determine property management, procurement, and unallowable cost policies for block grants. Similarly, states could choose their own strategies for carrying out their responsibility to provide for audits of block grant programs, although OMB did provide some written guidance.

States are generally required by statute to submit reports showing the intended use of block grant funds before receiving allocations and to file reports on block grant expenditures. Federal agencies have not prescribed the form or content of these reports, although they are empowered to do so. Rather, states were given the flexibility to determine the amount, nature, and format of information provided in applications or intended use reports and in annual reports submitted to federal agencies.

Federal agencies still recognize a responsibility to provide states with technical assistance and information to facilitate block grant implementation. Not only do some block grant provisions require federal technical assistance to be offered, but several authorize HHS to provide the temporary service of federal employees. Accordingly, HHS can provide assistance to

states, upon request, directed toward improving service delivery systems and practices, but will not instruct the states on how to comply with federal requirements. The Department of Education has issued "nonregulatory" guidance which provides federal answers to certain commonly asked questions about the education block grant. This federal guidance, however, is explicitly nonbinding, and states are encouraged to develop their own approaches to these issues.

EXISTING STATE PROGRAM MANAGEMENT SYSTEMS USED TO MONITOR BLOCK GRANTS

Reflecting their substantial prior involvement in many program areas receiving block grant funds, states generally did not change their monitoring levels to accommodate block grants. Monitoring for most block grants was handled through ongoing state systems used for other federal or state funds. New state oversight procedures, however, had to be developed for CSBG, since states had limited involvement in managing these funds.

States used several approaches to monitor recipients' compliance with federal and state requirements. In addition to reviewing recipients' own certifications of compliance through applications, states typically relied heavily on reports from providers (in 86 percent of the cases) and site visits (in 66 percent of the cases).[1]

Since block grant implementation, states we visited generally had not changed the level of effort devoted to monitoring and data collection for the health block grants, SSBG, and LIHEA. In these areas, states already had considerable prior involvement with the categorical programs and/or similar state-funded services. As a result, states often had ongoing relationships with service providers as well as established rules, regulations, and monitoring systems to oversee their performance.

As illustrated in table 3.1, at least 8 of 13 states reported that they did not change their level of monitoring as a result of block grants for the health, social services, and energy programs. Similarly, at least eight states reported maintaining their spending levels for data collection for these programs.

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[1]GAO analysis of trends across the 7 block grants in 13 states comprised a total of 91 cases.

Table 3.1

Effect of Block Grants on States' Level of Effort Devoted to Monitoring and Data Collection[a]

	Increase (Number of states)	No Change (Number of states)	Decrease (Number of states)
MCH--			
Monitoring	3	9	1
Data collection	4	9	0
PHHS--			
Monitoring	2	8	2
Data collection	2	9	2
SSBG--			
Monitoring	0	8	4
Data collection	0	9	4
LIHEA--			
Monitoring	4	9	0
Data collection	2	8	2
ADAMH--			
Monitoring	3	8	0
Data collection	3	8	1
Education--			
Monitoring	1	2	9
Data collection	1	1	8
Total--			
Monitoring	13	44	16
Data collection	12	44	17

[a]Not all 13 states responded to every question. Further, data were not collected for the CSBG since most states had no prior management responsibility for this area.

The monitoring and oversight of health and social services block grants was most often integrated with the states' oversight of related state-funded programs. At least 10 states for each of these block grants reported jointly monitoring service providers receiving block grant and related state funds.

Further, in 63 percent of the cases, state officials said they do not maintain data for these block grants that separately identify clients or services exclusively supported with block grant funds.

The block grant approach has promoted further integration of monitoring federal programs with related state programs. Five states, for instance, reported that the ADAMH block grant has led to the extension of a single state oversight system to all providers receiving federal and state funds. Under the categorical approach, service providers had to contend with separate federal and state monitoring systems and grant requirements.

In contrast, significant state monitoring changes occurred in two block grants--education and CSBG. As table 3.1 shows, most states reduced their monitoring and data collection effort for the education block grant, partly reflecting the limited state role in overseeing local expenditures. New York education program officials, for instance, said that since the federal government sought to maximize local control, the state's authority to ensure cost-effective local education programs has been eroded.

On the other hand, most states had to establish new monitoring and oversight processes for CSBG since they had little prior involvement with either community services programs or providers. Not only were most prior federal community services grants sent directly to local providers, but also 10 of the 13 states had no comparable state-funded program for community services. To handle their expanded grant management role, states established new oversight mechanisms for monitoring and data collection, including development of administrative requirements and hiring of additional administrative staff. While 6 of the 13 states initially adopted administrative procedures used by the federal government for prior programs, they are now moving to adopt their own procedures, as did the other 7 states, to streamline requirements and conform with state policies.[2]

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[2]These new state initiatives for CSBG are discussed further in our report, Community Services Block Grant: New State Role Brings Program and Administrative Changes (GAO/HRD-84-76, Sept. 28, 1984).

STATES AUDIT BLOCK GRANT FUNDS THROUGH BROADER AUDITS COVERING OTHER FEDERAL AND STATE FUNDS

A key oversight feature of the block grant legislation requires states to arrange for independent financial and compliance audits of block grant expenditures. At the state level, audits of block grant funds were usually conducted as part of single entity-wide audits of state administering agencies covering all federal as well as state moneys. Subrecipient audits were most often arranged by the local providers pursuant to state requirements. Eight of the 13 states indicated that inconsistencies in audit scope and frequencies between block grant audit requirements and federal single audit guidance in OMB Circular A-102 complicated their efforts to incorporate the audit of block grants into broader single audits. The Single Audit Act of 1984, passed in October 1984, is intended to facilitate the single audit of federal assistance to state and local governments by establishing a uniform audit requirement for federally assisted programs, including block grants.

States develop strategies in response to differing block grant audit requirements

The 1981 block grant legislation and regulations required states to obtain independent financial and compliance audits of block grant funds that are to be performed, in most cases, in accordance with the Comptroller General's Standards for Audit of Governmental Organizations, Programs, Activities, and Functions. However, individual block grant provisions in the 1981 legislation differed regarding audit frequency, with three block grants requiring an annual audit and four calling for a biennial audit. All 13 states have developed audit strategies for their block grant funds. As of October 1983, most block grant audits for 1982--the first full year of block grant implementation--were either completed or in process, and most states were auditing on an annual basis covering the state fiscal year.

Generally, state auditors were covering block grants at the state level through department-wide single financial and compliance audits of the state departments and agencies administering the block grant programs, following OMB Circular A-102, Attachment P guidance. The single audit approach articulated in this OMB guidance emphasizes examinations of the financial statements and the internal controls of the entire agency that administers federal funds, not a detailed examination of each grant received. Some testing of major federal compliance requirements is also provided for in the OMB guidance.

Kentucky, for instance, covers block grants as part of ongoing single audits of state agencies to avoid duplication of

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audit effort. The single audit of a state agency responsible for six block grants included steps to determine whether certain federal requirements, such as citizen participation, were met. In Iowa, the state auditor covers block grants through existing annual audits of state departments. Pennsylvania plans a single audit on a state-wide basis, which will include all block grants. In 11 percent of the cases, separate audits were done covering only block grant programs. For example, Massachusetts state agencies generally use public accounting firms to do separate financial and compliance audits for each block grant.

The state audit reports issued as of June 1984 included discussions of state internal controls and compliance with block grant requirements. In some instances, audit reports did not identify any material weaknesses in state agencies' internal controls and further indicated that these agencies complied with the grant requirements. In other cases, however, audit reports highlighted weaknesses in agency internal controls as well as specific block grant compliance problems. These reports usually discussed the actions agencies would take to correct the differences.[3]

States have also assumed responsibility for assuring that audits of subrecipients of block grant funds are performed. Since responsibility for subrecipient audit coverage rests with individual state departments and agencies, a variety of audit approaches were used. Most state agencies, however, generally required subrecipients to arrange for audits, usually with certified public accounting firms. In other cases, state agency internal audit staffs were responsible for auditing subrecipients. In 55 percent of the cases where subrecipient audits were performed, all subrecipients receiving block grant funds were audited. In the other 45 percent, only a sample of subrecipients were audited based on dollar thresholds or other criteria. Also, as part of their state-level audits, some state auditors tested a sample of state disbursements to smaller subrecipients and insured the adequacy of the states' systems for subrecipient audit coverage.

Pennsylvania provides some examples of the various approaches used for auditing subrecipients of block grant funds. Generally, state departments administering block grants establish audit requirements in grant agreements and contracts with subrecipients, but the provisions vary. For example, two departments have dollar thresholds which must be exceeded before an audit is required, while four other departments have no

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[3]The results of these audits are discussed in our separate reports on each block grant, listed in appendix I.

thresholds. Some departments require only a financial audit, while others require a financial and compliance audit. In addition, the Pennsylvania Auditor General provides audit coverage of smaller subrecipients not subject to other audits. According to state officials, this is done as part of state-level audits by looking at a sample of state disbursements to these subrecipients.

The Single Audit Act of 1984 addresses key state concerns about block grant auditing

At the time of our review, state officials reported that differing federal audit requirements and policies complicated state efforts to cover block grants as part of broader single audits of state agencies. This was prompting considerable state concern and uncertainty about the acceptability of their block grant audit strategies. State audit and program officials were also concerned about the costs associated with block grant audits, particularly for the audits of numerous local subrecipients. The October 1984 passage of the Single Audit Act (Public Law 98-502) eliminates the differences in federal audit policies by creating one standard audit requirement for federal assistance, including block grants, to state and local governments. This act addresses key state concerns about block grant auditing, and should, once properly implemented, promote simplified auditing of block grant funds through a single, uniform framework.

Scope of audits

Specifically, 8 of the 13 states were concerned about differences in audit scope between the single audit defined in Circular A-102, Attachment P, and the individual block grant requirements. At the time of our review in 1983, OMB's single audit guidance directed auditors to draw a sample of transactions for federal grants sufficient to test both the organization's overall control systems and its compliance with federal requirements that could materially affect the financial statements or grants tested. While OMB indicated that states could fulfill block grant audit requirements through single audits of the entire state or state agency(s) administering the programs, it also stated that transactions from each block grant must be tested to assess compliance with federal requirements during the course of a single audit, regardless of their financial materiality, due to the high visibility and newness of these programs.

State officials believed this OMB interpretation complicated the single audits of organizations administering block grants, causing costly adjustments in sampling plans to test

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block grant requirements. A Kentucky audit official suggested that the requirement to audit each block grant diverted audit effort away from federal programs with greater funding than block grants.

The new legislation addresses this concern by replacing the differing federal audit requirements, including those pertaining to block grants, with a uniform single audit requirement which covers the financial statements and internal controls of the entire state or local government or each of its agencies administering federal funds, as well as their compliance with key federal program requirements. The new law established thresholds of coverage for state and local government recipients of federal assistance provided either directly from the federal agency or indirectly through the state or another local agency. Governmental jurisdictions receiving $100,000 or more in total federal assistance must have an audit pursuant to the act, and those receiving from $25,000 to $100,000 may choose to comply with either the new single audit or the individual audit requirements for specific federal programs providing their funding. Jurisdictions receiving less than $25,000 are exempt from the audit requirement.

Regarding audit scope, the new law requires auditors to do compliance testing on transactions from each of the "major Federal assistance programs" which are defined by the total amount of federal funds expended by the government. The law stipulates that a state spending over $7 billion in federal funds, for instance, would have to perform compliance tests for any federal program where more than $20 million was spent. A state or local government spending less than $100 million, but more than $100,000 would have to test those programs where the greater of $300,000 or 3 percent of total federal funds was spent.

Frequency of audits

The varying block grant audit frequencies also posed problems for the states. While Attachment P and four block grants provided for a biennial audit, three block grant programs required an annual audit. Although Pennsylvania, for instance, was planning a biennial state-wide single audit, audit officials indicated at the time of our review that they might have to perform separate audits for these three block grant programs more frequently.

The new legislation, however, replaces the differing audit timetables established for several block grant programs with an annual audit requirement, except for jurisdictions whose constitutions or statutes require audits to be conducted less frequently.

Audit coverage of subrecipients

The new act also addresses state concerns about audit coverage of subrecipients, which states feared could be quite costly if all subrecipients must be audited. For example, program officials in Florida's Department of Health and Rehabilitative Services, which administers the PHHS, ADAMH, MCH, and SSBG, estimated that it would cost between $11 and $15 million--nearly 10 percent of the state's block grant funding for these programs--if the single audits required at the time under OMB Circular A-102 were applied to all their block grant subrecipient contracts, regardless of size. In 1983, only selected cost reimbursable contracts exceeding $50,000 are audited.

The state would have responsibility for reviewing subrecipients' audits required under the act and ensuring corrective action of instances of material noncompliance when it provides over $25,000 of federal funds to subrecipients. For those local government subrecipients covered by the act, the state must review the local governments' single audits and ensure that corrective action is taken on findings of material noncompliance. If the subrecipients do not conduct an audit in accordance with the act, states are required to assure that these entities' expenditures of federal assistance are in accord with applicable laws and regulations. States may use an audit or other appropriate means to make its determinations for these subrecipients.

Costs of performing audits

Finally, program officials in all 13 states indicated that administrative requirements, such as audits, make it more difficult and costly to administer the block grant programs. Although no new funding source was authorized by the single audit legislation to reimburse the costs of performing these required audits, the legislation directs OMB to include criteria in its implementing guidance for determining the appropriate federal share of audit costs. According to Public Law 98-502, the federal share of audit costs must not exceed the federal share of total expenditures by the jurisdictions, except where higher costs can be justified.

STATE NEEDS FOR FEDERAL TECHNICAL ASSISTANCE CHANGE AS BLOCK GRANT EXPERIENCE EVOLVES

While program officials in more than 50 percent of the states reported requesting federal technical assistance on such federal requirements as application and reporting processes, less than one-third asked for federal technical assistance on management procedures or data collection issues, perhaps

reflecting their use of established state procedures to manage these programs. States received the federal assistance they requested in 82 percent of the cases and generally found it to be helpful. Reflecting the administration's desire to avoid federal intrusion, federal agencies in several cases did not provide clarification or interpretation of reporting requirements and statutory restrictions when asked by the states. While some states welcomed this federal hands-off policy, others were uncomfortable with the lack of federal guidance. Less than 20 percent of state program officials, however, registered a great need for additional federal technical assistance across all 14 issues we examined.

Table 3.2 shows the extent of state requests for federal technical assistance for 14 subject areas affecting program implementation and management.

Among the block grants, states requested assistance most often for the education block grant, as 12, 11, and 9 states requested assistance on application, reporting, and federal restrictions, respectively. For example, the state evaluation required for fiscal year 1984 under the education block grant prompted several states to request federal guidance on what kind of data should be collected and evaluated. States also sought assistance for programs like CSBG where states were unfamiliar with the program. Under CSBG, 7 of the 13 states requested federal information on recipients of grants under the prior federal categorical program, since states generally had no previous ties to these organizations. States sought assistance least for the social services block grant with only five, seven, and three states requesting information on application, reporting, and restrictions, respectively. This is not surprising since this program essentially operated as a block grant before 1981.

Table 3.2

State Requests for Federal Technical Assistance

Subject areas	Percentage of cases where request was made (percentage of 91 cases)[a]
Federal requirements	
1. Federal application procedure	62
2. Federal reporting/evaluation requirements	53
3. Federal restrictions on use of funds	53
4. Civil rights requirements	10
5. Federal audit requirements	44
6. Other federal requirements not stated in the specific program legislation ("generally applicable", such as Davis-Bacon wage requirements)	29
Data issues	
7. Advice on data measurement techniques	11
8. Advice on uniform data systems across state	14
9. Advice on other data collection and evaluation procedures	13
Other program information	
10. Advice on program management techniques	11
11. Advice on financial management procedures	31
12. Data about previous categorical programs	30
13. Advice on service delivery techniques	8
14. Advice on practices in other states	30

[a]Based on a total of 91 cases (7 block grants in 13 states).

States reported receiving information they requested 82 percent of the time, while 18 percent said they did not receive assistance they requested from the federal government. In most cases, states felt that the federal assistance provided was helpful as shown in table 3.3.

Table 3.3

State Program Officials' Perceptions of the Usefulness of Federal Technical Assistance Received

	(Percent)
Great help	19
Moderate or some help	55
Little or no help	26

While federal agencies recognize a responsibility to provide technical assistance on request, they have reduced their role in program administration due to the administration's desire to avoid federal intrusion and maximize state discretion over block grant implementation. Essentially, states asking for federal guidance on block grant restrictions typically were told by federal agencies to use their own laws and procedures and to seek guidance from their own attorneys.

States had mixed perspectives on this lowered federal oversight profile. Certain state officials welcomed the new federal hands-off policy. A Massachusetts LIHEA official stated that the detailed federal reviews of applications under the prior categorical program caused significant delays in providing benefits, prompting a lawsuit on behalf of renters not receiving timely assistance. A Kentucky ADAMH official had a positive view of the discretion available to make their own interpretations of block grant provisions. Further, as shown in chapter 4, states often found the discretion provided them to define application and reporting requirements beneficial, frequently resulting in less administrative burden. States took advantage of the flexibility to make widespread changes in administrative systems, enabling them to standardize administrative rules by extending state procedures to block grant programs.

Several state program officials, however, were uncomfortable with the lack of federal guidance. This uncertainty sometimes created confusion and, at times, a reluctance by states to use their flexibility to adopt new policies and procedures because of concern about being subsequently second-guessed by auditors or federal program officials. For example, HHS refused to comment on the legality of California's proposed transfer of

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funds within ADAMH to the drug abuse area. This and other factors prompted the state to decide against making the transfer. When the Department of Education refused Washington's request for a federal ruling on whether local improvements of portable buildings were an eligible block grant expense, the state decided it was safer not to permit this activity, since auditors may have made a different interpretation and required LEAs to repay the misspent funds.

States in several instances dealt with the uncertainty about current or future federal accountability requirements by continuing to rely on the procedures used under the prior categorical programs. When HHS did not provide Massachusetts officials with guidance on whether generally applicable federal crosscutting requirements dealing with such issues as labor standards or environmental health apply to block grants, the state decided to adhere to the requirements applicable under categorical grants. In attempting to anticipate potential future federal information requests or requirements, states in several cases have maintained or increased data collection systems or requirements. For example, when their request to HHS for SSBG reporting guidance was denied, Massachusetts fell back on the same service categories and frequencies for expenditure reports that were required under the title XX social services program.

Some states sought greater help from nonfederal organizations. A Vermont education official, for instance, indicated that because there is no longer a federal point of contact to assist the state, state officials have had to rely more on other sources for advice and information, including informal contacts with other states and the National Association of State Boards of Education.

As the block grant experience has evolved, states' needs for federal technical assistance may have diminished in most areas. Across all 14 areas, less than 20 percent of state program officials expressed a great need for additional federal assistance, while 44 percent indicated little or no need for such assistance. The remainder--36 percent--report that more federal help would be of some or moderate value to them. States who did not receive the assistance they requested generally report a greater need for additional help than the states receiving assistance.

While program officials in the majority of cases initially requested federal assistance on key federal requirements, less than 23 percent have a great need for more federal assistance on applications, reporting procedures, or federal restrictions on the use of funds. Further, the priorities of those state officials registering a great need for additional federal help

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center on federal auditing requirements (38 percent), practices in other states (29 percent), and establishing uniform data systems across states (28 percent).

The states' needs for more federal technical assistance could change as they continue to gain experience with the programs and as new federal requirements are implemented. For instance, 1984 legislative changes made to block grant audit and data collection requirements (see pp. 28 to 30 and 39) could affect two of the areas where states registered the strongest needs for additional federal technical assistance.

ABSENCE OF UNIFORM NATIONAL DATA ON BLOCK GRANTS PROMPTS NEW LEGISLATION STRENGTHENING FEDERAL DATA COLLECTION

Consistent with the administration's philosophy of minimal federal involvement, states have been given the discretion to determine the form and content of data collected and reported. Although states report maintaining the prior level of effort for data collection, they are, nevertheless, using their flexibility to determine data requirements based, primarily, on their own needs.

Congressional and certain federal program officials have indicated that the federal government does not have sufficiently consistent or uniform data to address key national concerns about block grant programs. Reflecting this concern, the Congress acted in 1984 to require the collection of more systematic and uniform data on five of the seven block grant programs.

Strategies for data collection reflect minimal federal instrusion

Block grant legislation generally requires states to submit (1) applications describing the intended use of block grant funds to the appropriate federal executive agencies and, (2) for most of the block grants, an annual report detailing block grant activities in the state. Although the administering federal agencies generally have the authority to prescribe the form and content of these state documents, they chose not to impose requirements beyond those in the legislation. This approach supports the administration's position that the fundamental check on the use of block grant funds is the states' accountability to their own citizens.

The Congress included certain national reporting responsibilities for block grant programs in the 1981 legislation creating the programs. For three of the block grants, the Secretary

of HHS has to report to the Congress on the activities of the states. Federal HHS officials cite different sources of information available to them to meet these reporting requirements. These sources include annual state applications and reports, compliance reviews, audits, and agency studies. Another contributor of data to these required reports are voluntary national surveys conducted under contract with HHS, such as those of the American Public Welfare Association and the National Governors' Association.

This approach is in marked contrast to data collection efforts under some prior categorical programs where states were required to adhere to uniform federal data collection standards in their reports to the agency. For example, under the prior title XX program, states were required to report at specified intervals on the expenditures, clients, and types of services provided based on common national definitions of reporting categories (the Social Services Reporting Requirements system). Under the prior energy assistance programs, states were to submit detailed quarterly reports on the characteristics and numbers of the households served in a manner prescribed by HHS.

Data collected by the states reflected state-determined needs

State needs had the greatest influence on the overall level of effort exerted by the states to collect data on programs supported with block grant funds. Generally, as shown in table 3.4, program officials in the 13 states cited the state agency planning and management requirements, followed by the state budget process and the requirements of the state legislature as having the most influence on the states' level of effort in block grant data collection activities. These program officials attributed less significance to federal block grant requirements. Further, states generally do not perceive the need to collect nationally comparable data as an important factor influencing their data collection activities.

Table 3.4

State Program Officials' Perceptions of the Degree of Influence On State-Level Data Collection Efforts

Factors	Great influence	Moderate influence	Some influence	Little/no influence
	(percent)			
State agency planning and management requirements	69	18	5	8
State budget process	47	23	15	15
Requirements of state legislature	32	30	17	21
Federal block grant requirements	34	24	24	18
Administrative cost ceilings	26	29	15	30
State desire to maintain cross-state comparability	21	22	18	39
Other federal requirements	18	19	28	35

Program officials in the states we visited told us they were using their flexibility under block grants to develop data collection strategies that better reflect state management goals. Michigan and Washington, for example, reported that under the new block grant requirements, state management is in a better position to improve its LIHEA program now that data collection resources can be directed to areas tailored to address specific state needs. Mississippi maintains data on mental health programs supported with ADAMH funds on a state rather than federal fiscal year basis. PHHS officials in Iowa reported that they expend less resources on data collection under block grants since the data collected satisfies state needs only.

Like the delivery of programs supported with block grant funds which have often been integrated into related state delivery systems, data collection efforts for these programs have also been integrated into broader state efforts. For the health and social services block grants, program officials in 63 percent of the cases indicated they do not maintain separate data systems on block grant clients and services. For example, in California under the ADAMH block grant, mental health services will be reported in the state's own Department of Mental Health

cost reporting and data collection terminology. Pennsylvania now treats federal and state drug abuse prevention dollars as an integrated funding source and has eliminated previous categorical program reporting.

More uniform data were needed for congressional policy deliberations

Since states were not required to collect or report data in a nationally consistent manner, considerable variation exists in the data being collected and the data reported to the federal level. Some federal program officials indicated that they sometimes did not have adequate information to assist the Congress in addressing significant concerns regarding block grant programs. Officials with state associations also believed that more consistent data were needed at the national level, but felt that voluntary cooperative federal-state data collection would provide uniform data without imposing excessive regulatory burdens on the states.

A number of cases were identified where data on important block grant questions were not provided by many states to HHS officials. For instance, to provide a national perspective on PHHS services in their report to the Congress, HHS relied largely on an analysis of state intended use reports whose scope, length, and level of detail varied considerably among the states. One-third of the states did not discuss planning activities, and half of the states did not discuss monitoring or evaluation procedures for the PHHS block grant.

Limited national data on block grants has correspondingly constrained the ability of some HHS program officials to respond to congressional concerns and inquiries on the block grant programs. One official indicated, for example, that the agency has not been able to respond to questions on the number of persons served under the MCH program. Some federal program officials with the ADAMH program stated that they have not been able to respond to questions from the Congress for information on such issues as state expenditures for substance abuse treatment and identifying the clients receiving treatment by age group. Since mandatory reporting systems on drug and alcohol abuse programs were dismantled with the advent of block grants, HHS no longer had systematic and uniform data on numbers of clients undergoing treatment, types of facilities treating people, and expenditures on services from all sources. These officials said that the information provided on block grants to respond to congressional inquiries was principally based on state applications. Because states have differing ways of classifying and reporting clients served and facilities used in their applications, HHS could only provide anecdotal, not comprehensive, responses to these inquiries.

In some cases, states were not collecting certain basic information concerning the block grant programs. The National Governors' Association national survey of CSBG indicated, for instance, that only 11 of the 50 states reported that they gathered data on the characteristics of participants in the 1983 CSBG program. For the education block grant, several states seeking to promote local discretion and authority reduced or eliminated statewide efforts to collect data on such items as students and services funded with the block grant.

Organizations of state officials believed that national level data on block grant programs were important and, in some cases, worked in concert with HHS to develop national surveys and reporting systems for these programs. For example, the National Governors' Association has completed a survey of CSBG; the American Public Welfare Association developed a data collection and reporting system for SSBG; and the National Association of State Alcohol and Drug Abuse Directors is currently developing a State Alcohol and Drug Abuse Profile.

Although some federal program officials indicate that there are limitations to these efforts because state participation is voluntary, these organizations contend that this approach is preferable to mandated federal reporting requirements. They noted that the arbitrary and overly prescriptive nature of federal data systems used for prior categorical programs was overly burdensome to the states. Further, they indicate that states sometimes did not understand the utility of some of the data they were required to collect. Officials of these organizations believe that a cooperative federal-state data effort would promote greater commitment by the states to use the system due to their "stake" in determining the scope and definition of data elements.

The Congress has moved to strengthen federal data collection for five block grants

The congressional need for more information regarding programs supported with block grant funds is evidenced in legislative initiatives to provide more consistent, uniform national data on block grants. In 1984, the Congress added new data collection provisions to five of the seven block grants.

In the case of MCH, the Congress included conference report language in the Deficit Reduction Act of 1984 directing the Secretary of HHS to secure and make available to the Congress information on the numbers of people served and cost effectiveness of services provided under the block grant. Legislation passed in 1984 reauthorizing the PHHS and ADAMH block grants requires

the Secretary, in consultation with appropriate national organizations, to develop model criteria and forms for data collection for these programs. Legislation reauthorizing the LIHEA program directs the Secretary to provide information on the numbers of households with persons 60 years and older or with handicapped persons that were assisted by block grant funds. Finally, 1984 amendments to CSBG now require the Secretary to report the results of HHS evaluations of the states' use of CSBG funds to the appropriate House and Senate committees. Further, the Congress deleted statutory language restricting the Secretary's authority to request information from the states that is not readily available.

CONCLUSIONS

States have assumed their expanded management oversight responsibilities for block grants largely through broader state administrative systems used for state funds. Generally, block grant implementation did not require states to change their levels of oversight. To a large extent, this reflects their long-standing involvement in managing related federal and state programs. However, the states were required to make more major adjustments to assume their new management responsibilities for those program areas--most notably community services--where they had little or no prior involvement with the programs or service providers. As a result, it has taken time for some to develop their own procedures to administer this program.

States were arranging for the audit of block grants through broader single audits used to cover other federal and state moneys. Although states were concerned during the first several years about differences in federal auditing policies for block grants and other federal funds, the 1984 Single Audit Act could, when implemented, facilitate the coverage of block grant funds through broader single audits of entities administering federal and state funds.

Although states are now responsible for program administration, technical assistance from the federal government proved helpful during block grant implementation. Initially, most states asked for federal technical assistance to help them deal with such key federal requirements as applications, reporting, and restrictions on the use of funds. States tended to need federal help more for those programs where they had no prior involvement or where significant new federal constraints or mandates have been imposed.

Federal help was usually forthcoming when requested; however, in some cases, federal agencies decided not to clarify or interpret certain federal statutory requirements. This made

some states reluctant to use their flexibility in adopting new policies or procedures. As states have gained experience with these programs, however, their need for additional federal technical assistance appears to have diminished.

Because the federal agencies did not require uniform national reporting by the states, the information collected and reported was not consistent. Instead, it was tailored to the needs of each state. Because the Congress believes it is important to have a better national picture of how the funds are used and what they are accomplishing across the states, it has strengthened national data provisions in five of the seven block grant programs discussed in this report. While national reporting standards may entail some loss of state flexibility, an intergovernmental partnership to collect consistent national data on block grant performance may help promote program support and stability at the federal level.

CHAPTER 4

MOST STATES MADE IMPROVEMENTS IN ADMINISTRATIVE MANAGEMENT, BUT EFFECTS ON ADMINISTRATIVE COSTS CANNOT BE QUANTIFIED

One of the anticipated benefits of block grants was to enable states to reduce their administrative overhead and realize greater management efficiencies through consolidation of categorical programs and relaxation of federally imposed paperwork and regulation. As a result of block grant implementation, most states took action to simplify and standardize administrative procedures. Further, partly due to the savings in time and effort due to reduced federal requirements, states also reported management improvements in the use of their staff.

But, it is not clear whether and how much these state administrative changes translated into reduced state administrative costs. The absence of adequate data on current and prior state administrative costs prevents the measurement of changes in state costs due to block grants. States did experience both increases and decreases in staffing levels since the advent of block grants, partly reflecting the differing degrees of change in state responsibilities for the different block grant programs.

BLOCK GRANTS ENABLED STATES TO MAKE MANAGEMENT IMPROVEMENTS

State officials generally found federal requirements placed on the states under the block grants to be less burdensome than those of the prior state-operated categorical programs. Moreover, they reported that reduced federal application and reporting requirements had a positive effect on their management of block grant programs. Also, some state agencies were able to make more productive use of their staff as personnel devoted less time to federal administrative requirements and more time to state-level program activities.

Greater flexibility in meeting federal accountability requirements resulted in reduced burden

The block grants carry with them reduced federal application and reporting requirements. Under the prior categorical programs, these management activities had to be performed in

accordance with specific federal directives. The block grants give states greater discretion to address these requirements consistent with their own priorities and procedures.

In 64 percent of the cases, state officials reported devoting less time and effort preparing applications for the block grants than for the prior categoricals.[1] In over two-thirds of these cases, they found the new application requirements to have a beneficial effect on state program management. A Kentucky official, for instance, explained that LIHEA application requirements enabled the state to better respond to its immediate needs because HHS approval is no longer required before program implementation. In Texas, officials noted that before PHHS, the state was required to have at least 90 copies of five categorical grant applications, which were long and involved. They stated that the block grant application took much less time to prepare and that it more accurately described the program.

Satisfying simplified federal reporting requirements also reduced the demand on state personnel. States reported devoting less time and effort to reporting to the federal government in 73 percent of the cases. As shown in chart 4.1, only for MCH did less than half of the states we visited experience a reduction in reporting time and effort. Further, in nearly two-thirds of the cases, state officials found the reporting requirements to have a positive effect on their program management. Michigan officials, for example, explained that the reduced reporting requirements under LIHEA allowed them to direct data gathering resources to areas tailored to state needs. Pennsylvania officials noted that the elimination of monthly reporting previously required by the National Institute for Drug Abuse statewide services drug grant had a very positive effect on their management of ADAMH programs.

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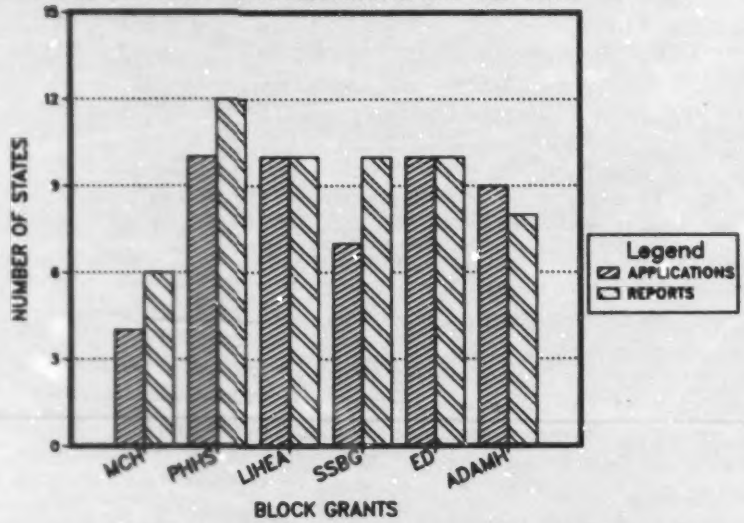
[1]Our analysis of trends across the 6 block grants in 13 states comprised a total of 78 cases. Data were not collected for the CSBG because states had little involvement in administering the prior categorical programs.

CHART 4.1
NUMBER OF STATES DEVOTING LESS TIME
AND EFFORT TO APPLICATIONS AND REPORTS



LESS TIME AND EFFORT WAS REPORTEDLY SPENT PREPARING APPLICATIONS IN 64 PERCENT OF THE STATES AND REPORTING TO THE FEDERAL GOVERNMENT IN 73 PERCENT OF THE STATES.

Despite the reduced federal reporting and application requirements, state officials indicated that the same amount of time and effort was spent in preparing applications and in reporting to the federal government in 15 and in 12 of the 78 cases, respectively. Officials frequently attributed the continuing level of effort to state requirements and procedures. For example, New York officials explained that the shift to the SSBG had little effect on state application preparation and reporting procedures because social services provided are mandated by the state constitution. Pennsylvania officials noted that the LIHEA plan serves as the state's program regulation and thus must go through the normal regulatory process. Iowa LIHEA officials indicated that they still produce the same types of reports for the state legislature as they had under the prior categorical program.

In a few cases, states increased their efforts devoted to meeting these block grant management responsibilities. Under the MCH block grant, officials in 6 of the 13 states indicated they devoted greater effort in preparing their 1983 block grant applications. State officials required additional time to obtain public input, assess needs, and plan comprehensively as they took steps to fulfill their new responsibilities. Further, some state program officials claimed that applications for the prior program had become routine, requiring few revisions from year to year. Officials of the Iowa health department noted that more work is required to propose and justify changes in program emphasis and service delivery for their MCH application.

Consolidation and regulatory reduction spurred more efficient use of staff

States in 33 percent of the cases reported making improvements in the use of state personnel directly as a result of the block grants--especially in MCH and education.[2] These improvements did not always involve reductions in the level of state staff. In several instances, state officials noted improved management of state personnel, while reporting that the number of personnel remained constant or even increased.

Reduced federal regulatory requirements enabled some states to operate with a smaller staff or redirect staff to program management. Program officials explained that state staff is now able to devote relatively less time to satisfying federal administrative requirements and more time to program activities. For example, California ADAMH officials noted that fewer reporting requirements permit a smaller staff to administer that block grant, thus reducing organizational size and complexity.

Further, the consolidation of prior categoricals enabled states to better integrate the administration of related state and federal programs. Three states made improvements in the use of MCH personnel because, according to program officials, they were able to use the same staff on related programs. In Mississippi, for example, officials explained that they have realized increased efficiencies because services under the program of projects component of the former maternal and child health categorical program have been consolidated into general health department operations. Washington state officials, speaking of the LIHEA block grant, noted that they are making better use of limited resources as staff responsibility is expanded into more program areas. Staff is now integrated and organized by function, rather than by funding source.

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[2]CSBG was not included in this analysis (see footnote 1, p. 43).

MOST STATES MADE CHANGES IN ADMINISTRATIVE SYSTEMS FOR BLOCK GRANT PROGRAMS

Block grant implementation prompted state agencies to re-evaluate and often alter their administrative procedures. States acted to change or standardize such requirements in 67 percent of the cases.[3] In certain instances, block grants enabled states to standardize and streamline application, reporting, and other administrative procedures to reduce paperwork and administrative burden for the state and/or their subrecipients. Conversely, the increase in state responsibility under the block grants led states in other instances to introduce new or more prescriptive administrative requirements in response to their increased oversight role. The overall effect of these changes is difficult to predict, as they generally represent responses to two conflicting pressures.

Block grants enabled states to standardize or simplify procedures

State officials reported standardizing application, reporting, data collection, and other administrative procedures for the block grants. These changes included both standardizing procedures across block grants and extending state procedures to block grant programs, thereby reinforcing the integration of services supported by state and federal funds. In several instances, state officials believed these changes would increase efficiency or reduce paperwork for state offices and/or subrecipients.

At least two states extended administrative procedures across more than one block grant. For example, Washington officials said that the block grants were one of several major factors behind their efforts to standardize the state's financial reporting system for the MCH and PHHS block grants. Also, a Pennsylvania health department official noted that the state standardized applications across all block grants and standardized contract language relating to federal health block grant requirements.

In some cases, states extended their own administrative requirements and procedures to subrecipients in lieu of specific requirements which had applied to the categorical programs. Massachusetts officials noted that PHHS allowed the state to

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[3]State program officials for all seven block grants were queried as to administrative changes made since block grant implementation. A total of 91 cases (13 states x 7 programs) was analyzed.

bring all former directly funded grantees under state purchase of service regulations and cost reimbursement contract practices. These officials expect the use of standardized procedures and controls to increase efficiency and accountability. In Vermont, social services officials said that subrecipients' administrative burden has been reduced, because subrecipients now determine client eligibility using state rather than state and federal eligibility criteria. SSBG was one major factor leading to this change.

ADAMH enabled states to eliminate duplicative procedures and integrate the administration of state and federally funded programs. For example, Colorado standardized administrative requirements imposed on community mental health centers. While centers were previously required to perform administrative tasks for the state and federal government, they now must complete only one application, receive one contract award, and report only to the state. Pennsylvania alcohol and drug abuse officials explained that they eliminated many duplicative reporting requirements in order to move toward integrating state and federal dollars. Mississippi mental health officials told us that they now use the same grant application and award procedures and the same accountability system for both state and federal funds.

Although delegated primary administrative responsibility under the education block grant, states were encouraged to minimize the paperwork burden levied on LEAs. Officials in several states told us that they simplified record keeping requirements for LEAs under the education block grant. A state official noted that Pennsylvania's Department of Education has substantially reduced paperwork requirements imposed on LEAs. Lengthy proposals, program descriptions, and end-of-year reports are no longer required, and LEAs only submit a short application form. Similarly, in Vermont, the State Education Department reduced administrative requirements imposed on LEAs. The LEAs' block grant application was streamlined, and program officials believe that the new form is less burdensome and time consuming.

Fifty-eight percent of the LEAs in the 13 states reported administrative requirements to be less burdensome under the education block grant than under the prior categoricals. In Pennsylvania, for example, 61 percent of the LEAs said the block grant was less burdensome and 18 percent said it was much less burdensome. Further, 72 percent of the LEAs in that state reported spending less or much less time and effort preparing education block grant applications, while 67 percent spent less time and effort reporting.

For other block grants as well, some state agencies moved to simplify reporting and application requirements. Michigan

officials noted that they eliminated reports no longer required by the SSBG and not considered useful to the state, while in Mississippi, officials claimed to have simplified statistical and fiscal reporting by contractors. Washington state officials anticipate increasing the length of service contracts for ADAMH and SSBG providers from 1 year to 2 years to reduce paperwork requirements.

Administrative requirements sometimes increased

Block grant implementation has led program managers as well as legislatures in several states to increase administrative requirements in order to achieve greater state accountability. These states have placed increased emphasis on data collection and reporting by service providers, especially for the MCH and PHHS.

State program managers' desire to maintain accountability or take advantage of block grant flexibility led to increased reporting, data collection, application, and contracting procedures. In Mississippi, program officials noted that PHHS and MCH placed more emphasis on state accountability and expedited their move toward improved oversight of service providers. They are developing new procedures for data collection and reporting by service providers. The increased flexibility of LIHEA was cited by Massachusetts officials as the impetus for developing a performance assessment tool for evaluating subgrantees, allowing them to identify and replace ineffective subgrantees. Similarly, the increased discretion available to states under the MCH program prompted officials in Colorado to establish a new application review system.

In two states, officials revised increased reporting and data collection activities specifically in response to concerns of state legislatures. Vermont officials changed data collection and reporting procedures for MCH and PHHS in part to meet the demands of the state legislature for greater accountability because of the increased use of state funds. The Iowa state legislature changed reporting requirements for the MCH and related state-funded programs which led to the collection of more detailed information regarding service provider budgets and clients served.

States either instituted or plan to institute new procedures to administer CSBG. One reason cited for these new procedures was the perceived weakness of the prior federal program management. Mississippi officials now negotiate a program contract and an administrative cost contract with each service provider and require providers to fully document expenditures prior

to reimbursement. The Executive Director of the Mississippi program expressed dissatisfaction with federal management of the prior program and claimed that the state is more serious about service provider compliance. According to an Iowa community services official, the state standardized administrative requirements and developed fund allocation criteria because it felt the Community Services Administration had not done a good job in these areas. Michigan officials have implemented an extensive service provider application and review procedure that they consider a strong part of their program administration. Several other states have developed new service provider application or reporting requirements to increase oversight over CSBG funds.

EFFECTS ON STATE PROGRAM ADMINISTRATIVE COSTS MIXED, BUT CANNOT BE QUANTIFIED

Although states have realized considerable management efficiencies or improvements under the block grants, they have also experienced increased grant management responsibilities. It is not possible to measure the net effect of these competing forces on the level of states' administrative costs. Such cost changes could not be quantified due to the absence of uniform state administrative cost data and comprehensive baseline data on prior categorical programs.

Quantification and comparison of state administrative costs was not possible

Problems with the availability of comparable cost data prevented us from measuring changes in state administrative costs. Essentially, two types of data must exist to make such a determination at the state level:

--uniform administrative cost data at the state level based on consistent state definitions of administrative costs and

--comprehensive baseline data on prior programs.

Neither type of data was available for these block grants across the 13 states.

We found no common definition of administrative costs across the states. Moreover, in several cases, individual states had no definition. This situation prevents systematic measurement of costs because there is no common agreement as to what costs are being measured.

Also, because states often treat block grants essentially as another funding source for state programs, it is very difficult to identify the portion of administrative costs attributable to the block grants. A Washington state official pointed out that block grant funds are not often used for a discrete program or grouping of programs. For example, that state uses SSBG funds to support a wide array of social services and has no separate process for allocating block grant funds.

A more detailed discussion of problems in quantifying administrative costs and state definitions of administrative costs can be found in our reports on the individual block grant programs, listed in appendix I.

Changes in state staffing levels partly reflect shifts in state responsibilities

No clear trends were evident in state staffing levels devoted to administering block grant programs. Rather, there were indications of both increases and decreases in state staffing levels compared to the prior categorical programs, partly reflecting the differing managerial responsibilities conferred on the states by different block grant programs.

States assumed significant new management responsibilities under the block grants, particularly for those services delivered by local level providers with direct federal funding under the prior grants. Within certain legislative limits, states are now able to determine needs, set priorities, allocate funds, and establish oversight mechanisms. A Mississippi state official, speaking of the PHHS and MCH block grants, noted that state officials now interpret regulations, arrange for audits, and manage other aspects of the programs formerly handled at the federal regional level. As a result, that official claimed that administrative costs are actually greater under these block grants than the prior categoricals.

As noted on page 10, the role of state governments under the prior categorical programs consolidated into CSBG was relatively minor, as the vast majority of federal funds went directly to community action agencies and other local grantees. Generally, as states took on added responsibilities, the number of staff years devoted to program administration increased. For example, in Mississippi, the Governor's Office of Community Services staff increased by five, and three staff members who specialize in contractual financial matters and management information systems were temporarily assigned to that office. The Massachusetts administering agency added field representatives, a projects monitor, a fiscal officer, and a manager to handle the broader responsibilities under CSBG.

Similarly, some programs that were merged into the health block grants previously provided funds directly to substate grantees, particularly mental health funds which went directly to community mental health centers, bypassing state governments. As a result, staff levels for the mental health portion of the ADAMH block grant increased in 5 of the 13 states following block grant implementation.

In some cases, particularly SSBG and education, state officials indicated that consolidation and administrative simplification permitted staff reductions. For example, in Vermont, officials explained that they phased out their title XX data processing unit in response to the elimination of reporting requirements attached to the prior program. Pennsylvania officials said they reduced administrative staff as a result of decreased requirements under SSBG. Officials also reported eliminating an office formerly devoted to the title XX program and shifting management responsibilities for title XX services to other program offices as a result of changes in planning and reporting requirements. Iowa and Florida officials noted that they were able to reduce administrative staff due to program consolidation and administrative simplification under the education block grant.

In addition to reductions in federal requirements or programs, other state cuts in staffing were attributed to federal and state funding cuts and state administrative cost ceilings. For example:

--The Colorado Department of Health officials said they eliminated one division and reduced staff due to reduced funding for MCH, thereby increasing the workload of a different division which assumed responsibility for administering the program.

--A Washington education official reported that the state had substantially fewer people to perform more work due to federal and state funding cuts.

--Pennsylvania's Bureau of Professional Health Services, responsible for the MCH program, reduced the number of staff positions due to a 10-percent administrative cost limit imposed by the state for that program.

CONCLUSIONS

Block grants have eased the federal administrative burden placed on states, both due to the consolidation of categorical programs and the reduction in federal administrative requirements. Many state officials believed they were better able to

use their personnel and/or institute procedural changes to increase the efficiency of their administrative systems. State staff now spend less time responding to federal administrative directives and are better able to address state needs and priorities. In addition, the states have been able to standardize or change administrative requirements at the state and subrecipient levels to increase efficiency and assure accountability.

The effects of these changes on state staffing levels and administrative costs, however, are mixed and difficult to measure. While the block grants brought significantly reduced federal administrative requirements, they also brought increased state management responsibilities and shifted the focus of accountability to the state level. Although it is not possible to measure the net effect of these competing forces on the level of states' administrative costs, changes in state staffing levels tend to be related to corresponding changes in the state role and federal requirements. States were required to add staff to administer such programs as CSBG that were new to state government. On the other hand, the consolidation and reduced federal requirements accompanying several block grants enabled some states to reduce their staff for programs with which they had prior administrative involvement.

GAO REPORTS ISSUED TO DATE ON IMPLEMENTATION OF BLOCK GRANTS CREATED BY THE OMNIBUS BUDGET RECONCILIATION ACT OF 1981[a]

States Are Making Good Progress in Implementing the Small Cities Community Development Block Grant Program (GAO/RCED-83-186, Sept. 8, 1983)

Maternal and Child Health Block Grant: Program Changes Emerging Under State Administration (GAO/HRD-84-35, May 7, 1984)

States Use Added Flexibility Offered by the Preventive Health and Health Services Block Grant (GAO/HRD-84-41, May 8, 1984)

States Have Made Few Changes in Implementing the Alcohol, Drug Abuse, and Mental Health Services Block Grant (GAO/HRD-84-52, June 6, 1984)

States Fund an Expanded Range of Activities Under Low-Income Home Energy Assistance Block Grant (GAO/HRD-84-64, June 27, 1984)

States Use Several Strategies to Cope With Funding Reductions Under Social Services Block Grant (GAO/HRD-84-68, Aug. 9, 1984)

Community Services Block Grant: New State Role Brings Program and Administrative Changes (GAO/HRD-84-76, Sept. 28, 1984)

Federal Agencies' Block Grant Civil Rights Enforcement Efforts: A Status Report (GAO/HRD-84-82, Sept. 28, 1984)

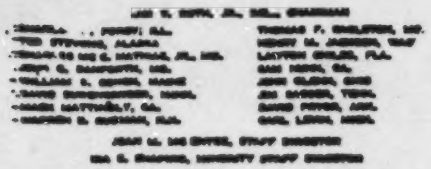
Education Block Grant Alters State Role and Provides Greater Local Discretion (GAO/HRD-85-18, Nov. 19, 1984)

Public Involvement in Block Grant Decisions: Multiple Opportunities Provided But Interest Groups Have Mixed Reactions to States' Efforts (GAO/HRD-85-20, Dec. 28, 1984)

Block Grants Brought Funding Changes and Adjustments to Program Priorities (GAO/HRD-85-33, Feb. 11, 1985)

[a]GAO plans to issue additional reports on block grants.

APPENDIX II



United States Senate

COMMITTEE ON
GOVERNMENTAL AFFAIRS
WASHINGTON, D.C. 20510

September 22, 1982

The Honorable Charles A. Bowsher
Comptroller General of the United States
U.S. General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Bowsher:

I am writing to request that the General Accounting Office conduct a study as a follow-up to its recent report Early Observations On Block Grant Implementation, (GAO/GGD-82-79, August 24, 1982). This review of 13 States' initial experience with the nine block grants created by the Omnibus Budget Reconciliation Act of 1981 reveals a generally positive experience in the first year of the block grants' existence.

As Chairman of the Senate Committee on Governmental Affairs I am keenly interested in an in-depth evaluation of the effect of the block grant approach on the ability of government to deliver services. In order to adequately evaluate the block grant mechanism we in the Congress need a thorough analysis of the State experience with the new block grants as they build upon their initial record.

I, therefore, ask that the GAO in follow up to its early observations of the nine new block grants examine the effect of these grants in the following areas:

1. Program performance;

2. Program administrative costs;

3. Generally applicable national policy requirements (cross-cutting requirements);

4. Program specific requirements;

5. The ability of local governments to carry out their responsibilities under the State administered block grants; and

6. The nature of Federal involvement in the tranafer to the block grants, including general technical assistance, information provided including the Geographical Distribution of

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Federal Funds, and the role of the Office of Management and Budget in administering its management circulars and resolving conflicts.

I am particularly concerned that a thorough analysis of the administrative cost savings under the block grants be prepared so that a careful comparison of the cost-effectiveness of block grants and existing categorical programs can be made. In addition, I believe it is critical to assess the effect of the block grant mechanism on service delivery and on actual program recipients.

I appreciate your attention to this and look forward to your response. Should any questions arise concerning this request, please have your staff contact either Mike Mitchell or Link Hoewing of the Governmental Affairs Committee staff.

Sincerely,

Bill Roth

William V. Roth, Jr.
Chairman

WVR/kkp

(118802)

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